

Transport for the North Board – Item 5

Subject: Financial Outturn 2018/19

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Sponsor: Iain Craven

Meeting Date: 10 July 2019

1. Purpose of the Report:

- 1.1 This report details the financial position of TfN as at the outturn of financial year 2018/19.
- 1.2 The report details expenditure against the base budget, and the three Revisions of that budget over the course of the year.
- 1.3 The report shows the use of resource over the course of the year, and the unapplied grants and contributions that can be used in future periods.
- 1.4 Finally, the report shows the unaudited balance sheet position.

2. Executive Summary:

- 2.1 Over the course of financial year 2018/19, TfN incurred expenditure of £34.45m.

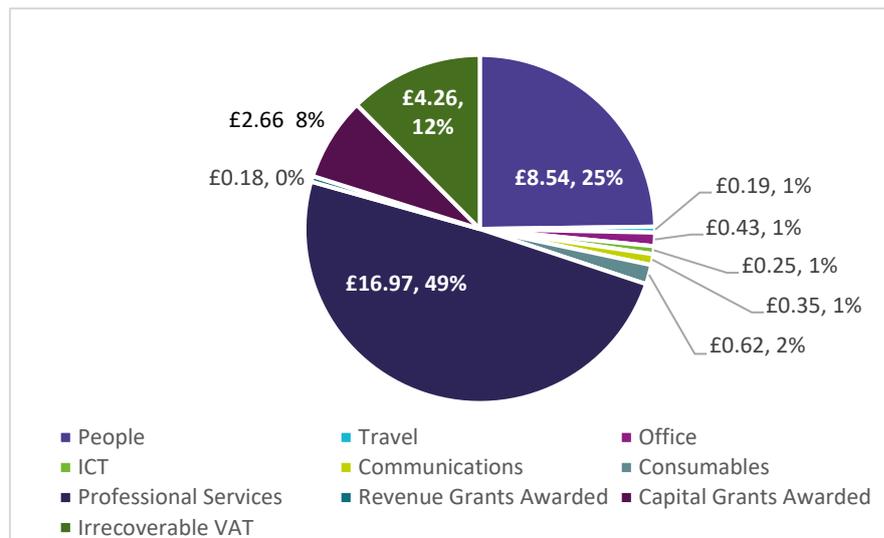
Summary

- 2.2 The majority of this expenditure was incurred in TfN's revenue and capital programme areas (£25.99m), with £8.46m incurred in TfN's operational areas.

| Total Expenditure | Outturn | |
|------------------------------|---------------|------------|
| | £m | % |
| Revenue Programmes: | | |
| Northern Powerhouse Rail | £14.12 | 41% |
| Major Roads | £2.61 | 8% |
| Integrated & Smart Ticketing | £1.06 | 3% |
| | £17.79 | 52% |
| Capital Programmes: | | |
| Integrated & Smart Ticketing | £8.20 | 24% |
| | | |
| Total Programmes | £25.99 | |

| | | |
|-------------------|---------------|-----|
| Operations | £8.46 | 24% |
| | | |
| | £34.45 | |

- 2.3 Reflecting TfN's role as a strategy and commissioning organisation, the majority of this expenditure was incurred on professional services (£16.97m) and staffing (£8.54m). TfN's inability to recover VAT added £4.26m to its costs:



- 2.4 This expenditure was resourced principally from grant and contributions:

| Funding | £m |
|-------------------------------------|---------------|
| Revenue Resource | |
| Core Grant | £10.57 |
| Transport Development Fund - Rail | £13.38 |
| Transport Development Fund - Road | £0.09 |
| Rail North Grants and Contributions | £1.08 |
| Integrated & Smart Ticketing Grant | £1.06 |
| Deposit Income | £0.07 |
| | £26.25 |
| Capital Resource | |
| Integrated & Smart Ticketing Grant | £8.20 |
| | £34.45 |

Variance to Budget

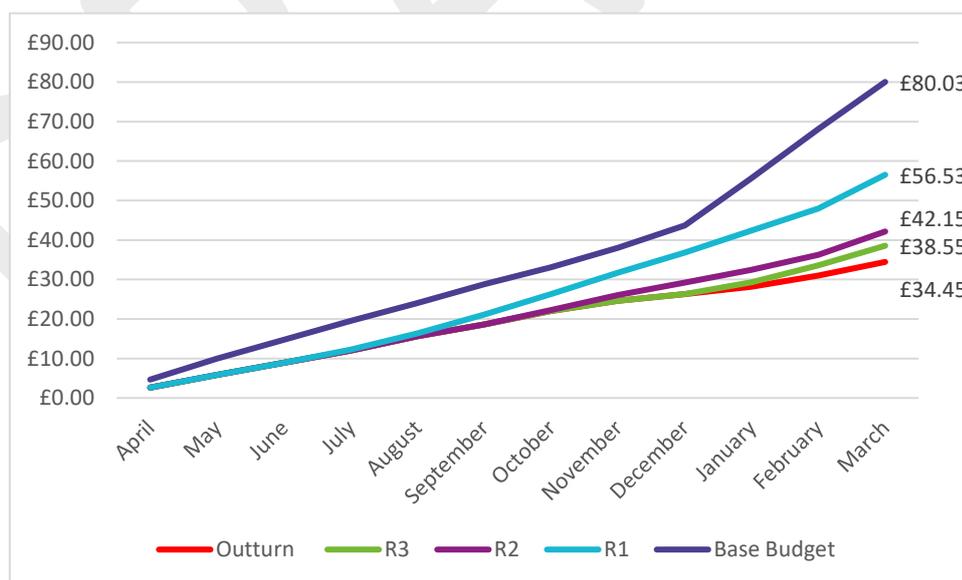
- 2.5 TfN adopted its first budget on the 5th April 2018. This budget had been developed as part of the organisation's business planning exercise and was revised three times over the course of the year to

ensure financial planning remained aligned to the latest delivery profiles.

- 2.6 Against the opening base budget underspends were incurred across the operational budget and the revenue programmes, but were prominent in the Integrated & Smart Ticketing capital programme:

| Total Expenditure | Actual £m | Budget £m | Variance £m |
|------------------------------|---------------|---------------|----------------|
| Revenue Programmes: | | | |
| Northern Powerhouse Rail | £14.12 | £18.89 | £4.77 |
| Major Roads | £2.61 | £2.65 | £0.04 |
| Integrated & Smart Ticketing | £1.06 | £1.25 | £0.19 |
| | £17.79 | £22.79 | £5.00 |
| Capital Programmes: | | | |
| Integrated & Smart Ticketing | £8.20 | £47.36 | £39.16 |
| | | | |
| Operations | £8.46 | £9.88 | £1.41 |
| | | | |
| | £34.45 | £80.03 | £45.58 |

- 2.7 As the year progressed better delivery planning information became available which, along with completed procurement exercises, gave better cost and timing information. This allowed the budget to be revised and ensured that at outturn TfN's actual expenditure was better aligned to its forecasts:



Carry-forwards

- 2.8 Throughout the year underspends have arisen from savings generated from vacancy management, activity being reduced, and efficient procurement of goods and services.

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- 2.9 Slippage of activity has also pushed costs associated with that activity out of the financial year and into future periods.
- 2.10 Known activity slippage and cost-savings were fed into the business planning process for 2019/20 to enable resource to be deployed to support future activity.
- 2.11 Over the final quarter of the year further slippage and cost savings were identified which changes the profile of expenditure in 2019/20 and the resource available in grants unapplied and reserves.
- 2.12 As at the financial year-end slippage of c. £2.29m was identified in the programme areas, principally within the IST programme (£1.99m). This slippage can be fully funded from capital grant received but yet to be applied.
- 2.13 Should it be forecast that the budget ceiling will require adjustment to accommodate the expenditure, a request will be made to the TfN Board to approve the carry forward of this expenditure and associated resource. The requirement for such carry forwards will be considered as part of the Revision 1 budget reforecast exercise.
- 2.14 As at the financial year-end slippage in the Operational Areas totalled £0.35m, with net savings generated at £0.25m.
- 2.15 Requirements for carry forwards will be considered as part of the Revision 1 budget reforecast exercise, with requests made to the Board in July.

3. Programme Area Analysis

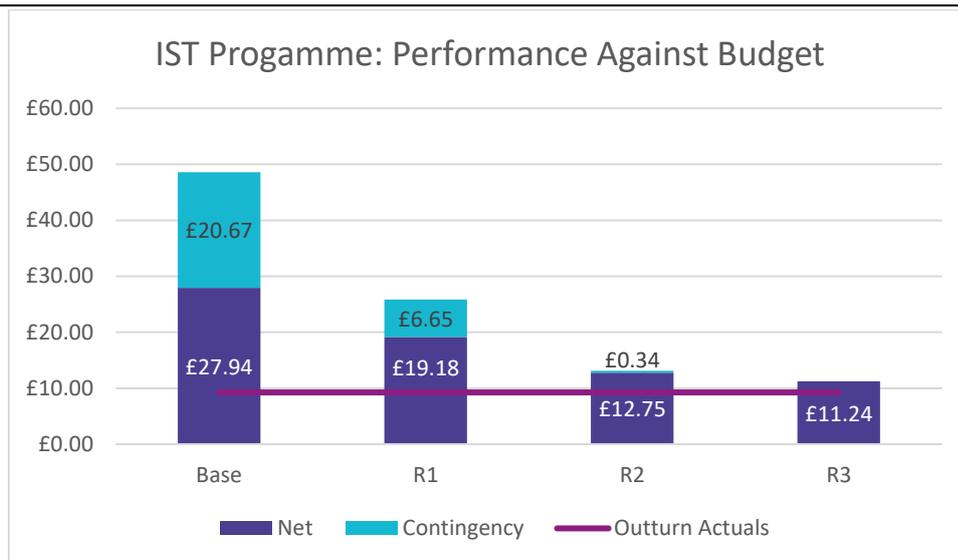
- 3.1 TfN's programme areas account for the majority of its expenditure and consist of both capital and revenue activity.
- 3.2 Over the course of the year there were major developments in TfN's programme areas:
- The NPR programme submitted its SOBC document to the Department receiving consent to proceed with NPR development;
 - The IST programme's Phase 2 project submitted its FBC document and received approval to progress to delivery; and,
 - The IST programme's Phase 3 project received OBC approval and began to progress towards FBC submission.
- 3.3 Programme area activity is inherently more sensitive to delivery hurdles, such as gateway approval processes, than the operational areas which have more stable activity and expenditure profiles.
- 3.4 As at the financial outturn TfN's programme areas had incurred expenditure of £25.99m, significantly below the opening base budget forecast of £70.15m.

Integrated & Smart Ticketing Programme (IST)

- 3.5 The IST programme consists of three phases of activity and encompasses both revenue and capital activity.
- 3.6 The opening base budget for the IST programme stood at £48.61m across its three phases. However, of this value £20.67m (43%) was contingency, consisting of optimism bias, qualified risk assessment and inflation adjustments. This contingency would only be called upon if required. This gave a net best estimate of cost for the programme of £27.94m.
- 3.7 The IST programme was particularly sensitive to change in both the cost and pace of activity as there were significant technological, stakeholder, supply-chain, and approval challenges to overcome in the year.
- 3.8 As at the year-end, all phases of the programme were underspent against the gross and net budgets:

| Budget Cycles > | Base £m | R1 £m | R2 £m | R3 £m |
|-------------------------|---------------|---------------|---------------|---------------|
| Gross | £48.61 | £25.83 | £13.09 | £11.24 |
| <i>Contingency</i> | <i>£20.67</i> | <i>£6.65</i> | <i>£0.34</i> | <i>£0.00</i> |
| Net | £27.94 | £19.18 | £12.75 | £11.24 |
| Outturn | £9.25 | £9.25 | £9.25 | £9.25 |
| Variance (net) | £18.69 | £9.93 | £3.50 | £1.99 |
| Variance (gross) | £39.36 | £16.58 | £3.84 | £1.99 |

- 3.9 The above table highlights that as the year-progressed, forecasts of programme expenditure were revised down to realign to the latest delivery profiles developed by the project teams:



- 3.10 Underspends were incurred across all of the phases. Phase 1 (ITSO on Rail) underspent against the opening net base budget by £5.28m, and against the net Revision 3 budget adopted in Quarter 4 by £1.57m:

| Phase 1 | Base £m | R1 £m | R2 £m | R3 £m |
|-------------------------|---------------|---------------|--------------|--------------|
| Gross | £13.21 | £14.16 | £5.31 | £4.72 |
| <i>Contingency</i> | <i>£4.78</i> | <i>£4.64</i> | <i>£0.00</i> | <i>£0.00</i> |
| Net | £8.44 | £9.52 | £5.31 | £4.72 |
| Outturn | £3.16 | £3.16 | £3.16 | £3.16 |
| Variance (net) | £5.28 | £6.37 | £2.15 | £1.57 |
| Variance (gross) | £10.06 | £11.01 | £2.15 | £1.57 |

- 3.11 Underspends in the Phase 1 area principally reflect slippage in the implementation of field ticketing components, such as ticket vending machines and platform validators.
- 3.12 The project remains ahead of the national ITSO on Rail scheme, and some of the slipped activity has already been recovered in Period 1 of the new financial year. The project remains on course to deliver within budget, with the train operating company procurement exercises for platform validators expected to be complete by the end of the summer.
- 3.13 Phase 2 of the programme is the smallest of the three phases and seeks to improve passenger access to journey time and disruption information. Over the year, the Phase 2 budget was revised down at each budget cycle as major contracts for the Disruption Messaging and Fares Data Build Tool workstreams slipped.

- 3.14 By the end of the financial year, Phase 2 had underspent against the base budget by £0.72m, but was largely on budget against the Revision 3 forecast:

| Phase 2 | Base £m | R1 £m | R2 £m | R3 £m |
|-------------------------|--------------|--------------|--------------|--------------|
| Gross | £4.04 | £1.73 | £1.56 | £0.94 |
| <i>Contingency</i> | <i>£2.40</i> | <i>£0.00</i> | <i>£0.00</i> | <i>£0.00</i> |
| Net | £1.64 | £1.73 | £1.56 | £0.94 |
| Outturn | £0.92 | £0.92 | £0.92 | £0.92 |
| Variance (net) | £0.72 | £0.81 | £0.64 | £0.02 |
| Variance (gross) | £3.12 | £0.81 | £0.64 | £0.01 |

- 3.15 Contracting for Phase 2 is now almost complete and delivery activity has commenced in financial year 2019/20.
- 3.16 The Phase 3 budget was originally forecast on the assumption that its OBC would be approved in March or April 2018. On this basis, it was assumed that the Phase would then pass FBC in Autumn 2018, with significant capital expenditure being incurred in Quarter 4 of the year. This expenditure attracted contingency at 90% of the forecast expenditure.
- 3.17 By April of the new financial year, however, it became apparent that this timeline would slip, with the Phase not achieving OBC approval until late May. On this basis, the Revision 1 budget significantly pared down forecast expenditure and the associated requirement for contingency to recognise that there would be materially less activity and cost in the year.
- 3.18 By the half-way point at Revision 2, it was becoming increasingly clear that there would be no capital expenditure incurred in the year beyond capitalisable development costs as timelines continued to slip.
- 3.19 At Revision 3, the budget had largely stabilised into ongoing development activity. Marginal variances arose to outturn around professional services.

These movements have led to material underspend against the base budget of £11.95m on a net basis and £25.44m on a gross basis:

| Phase 3 | Base £m | R1 £m | R2 £m | R3 £m |
|--------------------|---------------|--------------|--------------|--------------|
| Gross | £30.11 | £9.12 | £5.73 | £5.08 |
| <i>Contingency</i> | <i>£13.49</i> | <i>£1.86</i> | <i>£0.34</i> | <i>£0.00</i> |
| Net | £16.62 | £7.26 | £5.39 | £5.08 |

| | | | | |
|-------------------------|---------------|--------------|--------------|--------------|
| Outturn | £4.67 | £4.67 | £4.67 | £4.67 |
| Variance (net) | £11.95 | £2.60 | £0.73 | £0.41 |
| Variance (gross) | £25.44 | £4.46 | £1.07 | £0.42 |

3.20 The Department for Transport has been kept apprised of forecast resource requirements for the IST programme, and underspends do not affect the overall budget envelope that has been earmarked to the project by the Department.

Northern Powerhouse Rail (NPR) Programme

3.21 Over the course of the year the NPR programme has successfully passed its SOBC gateway with the Department for Transport.

3.22 In securing this progress the programme incurred expenditure of £14.12m. This consisted of its Core Grant funded staffing and related costs, and professional services – principally through contracting with Network Rail – funded from Transport Development Fund (TDF) grant.

3.23 As the year progressed the NPR programme budget was revised down as decisions were taken, alongside the Department as co-client, to move TDF resource to HS2 for aligned activity. This recognises the significant interdependencies between NPR and HS2. Underspends were also generated on the Sequence 4 Network Rail study, which resulted in less TDF resource being required.

3.24 At the financial year-end the NPR programme had underspent against the opening net base budget by £4.77m and £1.56m against the Revision 3 budget:

| | Base £m | Var. £m | R1 £m | Var. £m | R2 £m | Var. £m | R3 £m |
|-----------------|--------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| Budget | £18.89 | -£1.04 | £17.85 | -£0.94 | £16.92 | -£1.24 | £15.68 |
| Actual | £14.12 | | £14.12 | | £14.12 | | £14.12 |
| Variance | £4.77 | | £3.73 | | £2.80 | | £1.56 |

3.25 Funding restrictions on TDF grant are such that unused allocations cannot be carried forward into future years without consent from the Department. Officers are liaising with the Department through existing TDF funding governance to ensure that the NPR aspirations remain sufficiently funded in 2019/20.

Major Roads Programme

3.26 In 2018/19 the Major Roads programme area was focussed on the delivery of the Strategic Development Corridor Studies.

3.27 This activity does not attract discrete grant funding, so is resourced from TfN's general Core Grant resource.

- 3.28 Over the course of the year the programme's budget was revised both upwards and downwards, reflecting adjustments made for slippage from the prior year being progressed, and risks materialising around contract cost overruns.
- 3.29 By the close of the financial year these issues had largely been mitigated through offsetting underspends, with the final expenditure of £2.61m being almost on the base budget:

| | Base £m | Var. £m | R1 £m | Var. £m | R2 £m | Var. £m | R3 £m |
|-----------------|--------------|------------|--------------|------------|--------------|------------|--------------|
| Budget | £2.65 | £0.37 | £3.01 | -£0.21 | £2.81 | -£0.18 | £2.63 |
| Actual | £2.61 | | £2.61 | | £2.61 | | £2.61 |
| Variance | £0.03 | | £0.40 | | £0.20 | | £0.02 |

Operational Areas

- 3.30 The Operational Areas consist of the business support teams that enable the programme areas to function and allow the organisation to discharge its statutory obligations. In 2018/19, the Operational Areas also encompassed the Strategic Rail and Rail North Partnership teams who deliver TfN's obligations around rail franchising.
- 3.31 The Operational Areas are generally funded from TfN's un-restricted Core Grant, though the Rail teams are in receipt of local contributions from Rail North authorities and discrete grant from the Department.
- 3.32 Over the course of the year the Operational Areas have been more stable than the programme areas, reflecting the more predictable nature of activity and costs. However, the Transport, Analysis, Modelling, and Economics (TAME) function within the Strategy & Policy directorate has seen material slippage on professional services activity as delays to the delivery of TfN's Analytical Framework have arisen.
- 3.33 These underspends, amongst others, enabled TfN to contribute to the additional resource that was directed towards the Strategic Rail and Rail North Partnership teams following the timetabling issues of 2018.
- 3.34 By the financial year-end the Operational Areas had incurred expenditure of £8.46m, placing them behind the base budget by £1.43m and the Revision 3 budget by £0.54m.

| | Base Budget £m | Outturn £m | Var. £m | Revision 3 £m | Outturn £m | Var. £m |
|------------|----------------------|---------------|------------|---------------------|---------------|------------|
| Leadership | 0.29 | 0.29 | 0.01 | 0.32 | 0.29 | - 0.02 |

| | | | | | | | | |
|-----------------------------|-------------|-------------|----------|-------------|-------------|-------------|----------|-------------|
| Finance | 0.87 | 0.92 | 0.05 | 1.02 | 0.92 | - | 0.10 | |
| Business Capabilities | 3.82 | 3.60 | - | 0.23 | 3.47 | 3.60 | 0.13 | |
| Programme Management Office | 0.51 | 0.26 | - | 0.25 | 0.34 | 0.26 | - | 0.09 |
| Strategy & Policy | 2.81 | 1.65 | - | 1.17 | 1.89 | 1.65 | - | 0.25 |
| Rail North | 1.58 | 1.75 | 0.16 | 1.96 | 1.75 | - | 0.21 | |
| | 9.89 | 8.46 | - | 1.43 | 9.00 | 8.46 | - | 0.54 |

Reserves & Grants Unapplied

3.35 At the year-end TfN had not applied all the grants that had been received over the course of the year to expenditure. Dependent on the conditions placed on those grants, TfN holds unused allocations as either:

- Grants received in advance
 - Noting that there are restrictions on these grants that mean they may have to be returned to the Department for Transport if not used
- Grants Unapplied
 - This is a reserve for capital grants where conditions of use have been met but the resource has not yet been applied to meet expenditure
- Earmarked Revenue Reserves
 - This is a reserve for revenue grants that may only be applied to specific expenditure where conditions of use have been met but the resource has not yet been applied to meet expenditure
- General Fund Reserves
 - This our general reserve where revenue grant without restrictions on usage is held - in practice, this is where we hold unused allocations of our Core Grant.

3.36 As at the year-end, unapplied grants held in this manner are as follows:

| | £m |
|---|--------------|
| Revenue Grants Received in Advance | |
| - Transport Development Fund – Rail | £0.87 |
| - Transport Development Fund – Road | £0.02 |
| | £0.89 |
| Capital Grants Unapplied | |

| | |
|--|---------------|
| - Integrated & Smart Ticketing Phase 1 Grant | £1.41 |
| - Integrated & Smart Ticketing General Grant | £0.70 |
| | £2.11 |
| General Fund Revenue Reserves | |
| Core Grant | £5.28 |
| Earmarked - Devolved Powers | £0.30 |
| Earmarked - IST Revenue | £1.94 |
| | |
| Total Resource | £10.52 |

- 3.37 These grants will be applied to expenditure in 2019/20 and future accounting periods where possible or be returned to the Department for Transport if the restrictions require us to do so.
- 3.38 The Core Grant allocations held in our General Fund Reserve provide the basis for our medium-term financial plan, enabling both a gradual draw on that resource to support key development aspirations and underpinning our risk mitigation around our sensitivity to financial shock.
- 3.39 It should be noted that of the Core Grant reserve £0.35m relates to activity slippage that may require resourcing in financial year 2019/20, if in-year savings or slippage do not materialise. This effectively reduces the available Core Grant balance to £4.93m, set against a target balance of £4.96m for the end of 2018/19 as per the reserve strategy.

Balance Sheet

- 3.40 As at the financial year-end TfN's un-audited balance sheet recognised these grants and reserves, along with other items such as TfN's capital investment in intangible assets via the IST programme, and working capital.
- 3.41 The balance sheet also includes several items required to be shown under international accounting standards, including a provision for untaken leave, and specific accounting around pensions liabilities.
- 3.42 The balance sheet can be summarised as follows:

| Balance Sheet 2018/19 | | £m | | | £m |
|-----------------------|---------------|----|----------------------------|--|---------------|
| Assets | | | Reserves | | |
| Cash & Equivalents | £14.37 | | <u>Unusable Reserves</u> | | |
| Intangible Asset | £5.82 | | Absence Reserve | | £0.14 |
| Debtors | £0.18 | | Capital Adjustment Account | | -£5.82 |
| | £20.37 | | Pension Reserve | | £3.63 |
| Liabilities | | | | | -£2.05 |
| Provisions | -£0.08 | | <u>Usable Reserves</u> | | |

| | | | |
|----------------------------|---------------|-----------------------------|----------------|
| Grants Received in Advance | -£0.89 | Capital Grants Unapplied | -£2.11 |
| Pension Liability | -£3.63 | Earmarked Revenue Grants | -£1.94 |
| Creditors | -£4.09 | General Fund Reserve | -£5.28 |
| | -£8.69 | Earmarked - Devolved Powers | -£0.30 |
| | | | -£9.63 |
| | | | |
| Net Assets | £11.68 | Reserves | -£11.68 |

4. Conclusion:

- 4.1 This report details the financial performance of TfN at the outturn of financial 2018/19.
- 4.2 The report notes that budgets have been revised over the course of the financial year to realign financial forecasts with the latest delivery profiles received from project teams.
- 4.3 The report further notes the underspend against these budgets and associated impact on reserves and grants unapplied.
- 4.4 The report notes that where possible grant received but not applied will be held and used to resource expenditure in the new financial year, but some unapplied balances may have to be returned.

5. Recommendation:

- 5.1 Note the potential for carry-forwards of resource to be made at the July Board when the Revision 1 budget reforecast is presented.

List of Background Documents:

There are no background papers to this report.

Required Considerations

Equalities:

| | | |
|-------------------------|-----|----|
| Age | Yes | No |
| Disability | Yes | No |
| Gender Reassignment | Yes | No |
| Pregnancy and Maternity | Yes | No |
| Race | Yes | No |
| Religion or Belief | Yes | No |
| Sex | Yes | No |
| Sexual Orientation | Yes | No |

| Consideration | Comment | Responsible Officer | Director |
|---------------|---|---------------------|-------------|
| Equalities | A full Impact assessment has not been carried out because it is not required for this report. | Gareth Sutton | Iain Craven |

Environment and Sustainability

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|---|--|---------------------|-------------|
| Sustainability / Environment – including considerations regarding Active Travel and Wellbeing | A full impact assessment has not been carried out because it is not required for this paper. | Gareth Sutton | Iain Craven |

Legal

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|---|----------------------------|-----------------|
| Legal | The legal implications have been considered and are included in the report. | Sasha Wayne | Dawn Madin |

Finance

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|---|----------------------------|-----------------|
| Finance | The financial implications have been considered and are included in the report. | Gareth Sutton | Iain Craven |

Resource

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|---|----------------------------|-----------------|
| Resource | TfN HR Team has confirmed there are no resource implications. | Dawn Madin | Dawn Madin |

Risk

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|--|----------------------------|-----------------|
| Risk | A risk assessment has been carried out and the key risks are included in the report. | Haddy Njie | Iain Craven |

Consultation

| | |
|-----|----|
| Yes | No |
|-----|----|

| Consideration | Comment | Responsible Officer | Director |
|----------------------|---|----------------------------|-----------------|
| Consultation | A consultation has not been carried out because it is not required for this report. | Gareth Sutton | Iain Craven |

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